

SUPPLY AND DEMAND

Lesson: Supply and Demand

Grade: 7th

Oregon State Standard: 7.20. Explain the concepts of “supply” and “demand” and how price allocates scarce goods.



PACIFIC NW
FEDERAL CREDIT UNION

www.pnwfcu.org

Supply and Demand

Lesson: Supply and Demand

Grade: 7th

Oregon State Standard: 7.20. Explain the concepts of “supply” and “demand” and how price allocates scarce goods.

Objectives:

1. Students will understand the relationship between supply and demand

Vocabulary:

1. Supply
2. Demand
3. The Law of Supply and Demand
4. Market Economy
5. Scarcity
6. Equilibrium
7. Surplus

Materials:

1. Bag of mini individually wrapped candy
2. Supply and Demand Lesson Outline
3. “The Pearl Exchange” scenario worksheet
4. Vocabulary Worksheet
5. Pearls (or something that represents a pearl)
6. Post lesson Supply and Demand worksheet

Procedure:

1. Hold up one mini candy bar. Tell students you only have one candy bar. Whoever is willing to bid the highest for the candy bar can have it. Be the “auctioneer” of the classroom and settle on a price from the highest bidder.
2. Now, reveal the whole bag and let the kids know they are for sale. Hold one of the candy bars up and “auction” it off. Note what happened to the price once students knew there was enough for the whole class.
3. Tell the kids this is supply and demand and our classroom market just decided what the price of each candy bar should be.
4. Tell the students the actual price of the candy (price of whole bag divided by number of pieces) – this is the actual market price in our economy.
5. Hand out vocabulary worksheet.
6. Review what each word means and apply it to the candy scenario.
7. Read through the “Pearl Exchange” worksheet with the students.

8. Invite 2 students up who can demonstrate how to barter for the pearl. Give the buyer a maximum amount they can spend and the seller a minimum amount they can sell for.
9. Review negotiation tactics with class.
10. **Round 1:** Explain the class will be split into two groups. If they sell/buy a pearl then they come to the teacher together to share their agreed on purchase price.
11. After sharing with the teacher each student should go back to their desk to figure out what their saving was (for buyer, max purchase price – actual purchase price/ for seller, actual purchase price – minimum purchase price)
12. Go over purchase price and determine market value (add all sales and divide by the total number of sales to find the mean)
13. **Round 2:** Repeat Round 1 with the same parameters.
14. **Round 3:** A mysterious virus is killing the oysters!
 - a. Read the situation from the handout with the students.
 - b. This time divide the class in to two groups but instead of a 1:1 ratio like in round 1 and 2 – make a ratio of 1:2 with more buyers than sellers.
15. Discuss the difference in market price in round 1, 2, and 3.
16. **Round 4:** The price of diamonds has decreased.
 - a. Read the situation from the handout with the students.
 - b. This time divide the class in to two groups with a 1:2 ratio with more sellers than buyers.
17. Discuss the price differences between all 4 rounds.
18. Look back at the vocabulary worksheet and apply each term to the pearl scenario.
19. Ask if any students can apply supply and demand to their world. Examples:
 - a. Beginning of school year = more school supplies sold
 - b. Holidays = Favorite video game comes out and sells out
20. Thank students for participation and hand out candy from beginning of lesson with classroom teacher approval.

Supply and Demand Vocabulary

Supply	The supply is the amount of goods available. If there is a lot of something, the supply is high.
Demand	The demand is how many people want the goods. If many people want the goods, the demand is high, and they will pay more money for the items. If people do not want the goods, the demand is low.
The Law of Supply and Demand	The law of supply and demand explains the interaction between the sellers of a resource and the buyers for that resource. The theory defines what effect the relationship between the availability of a product and the desire (or demand) for that product has on its price. Generally, low supply and high demand increase price and vice versa.
Market Economy	A market economy is an economic system in which economic decisions and the pricing of goods and services are guided solely by the collective interactions of a country's individual citizens and businesses.
Scarcity	Limited goods or services, limited time, or limited abilities to meet the demands of consumers.
Equilibrium	When supply and demand are balanced
Consumer Surplus	The difference between the market price of a good and what consumers are willing and able to pay for it.
Producer Surplus	The difference between the amount the producer is willing to supply goods for and the actual amount received by him when he makes the trade.

The Pearl Exchange

Objective: During this activity you will...

- practice negotiation skills to determine the price of a good
- make predictions regarding changes in a pearl market
- demonstrate active participation and cooperative learning skills
- gain understanding of a supply and demand market

Scenario:

Pearls from the island of Bali are valued all over the world. Buyers and sellers of these pearls meet weekly at the Pearl Exchange, located in this room. During the 5-minute long trading sessions, half the class will be buyers and the other half will be sellers. Your goal is to make as much surplus (money) as you can by negotiating a favorable price.

- **Buyers** (consumers) must try to buy the pearls as cheaply as they can. If they pay less than their maximum price, they make a consumer's surplus.
- **Sellers** (suppliers) must try to sell the pearls for as much as they can. If they sell above their minimum price, they make a producer's surplus.

There will be **four trading sessions**. In each session, you can only buy or sell **ONCE**. When you make a deal, shake hands and come to the teacher to record your negotiated price. Then go back to your seat and record your surplus in the table below. If you do not make a sale or purchase, you take the entire minimum or maximum price for a loss. Are you the best negotiator in the class? Let's find out. Good Luck!

Round	Buying or Selling	Max Buying or Min. Selling Price	Negotiated Price	Surplus (or Loss)
Example	Buying	\$500	\$200	
1				
2				
3				
4				
Total				

Round 1: Only maximum and minimum prices are given to buyers and sellers

Round 2: Only maximum and minimum prices are given to buyers and sellers

Round 3: Change- Mysterious virus kills many Oysters

What will happen to demand or supply of pearls?

Predict what will happen to price and quantity.

Round 4: Change- Decrease in Prices of Diamonds (a substitute)

What will happen to demand or supply of pearls?

Predict what will happen to price and quantity.

Conclusions (Increase or Decrease)

1. If the demand for a product goes up, what will happen to its price and quantity?
2. If the demand goes down for a product, what will happen to the price and quantity?
3. If the supply for a product goes up, what will happen to the price and quantity?
4. If the supply goes down for a product, what will happen to the price and quantity?

Name _____

Supply and Demand

Supply – The supply is the amount of goods available. If there is a lot of something, the supply is high.

Demand – The demand is how many people want the goods. If many people want the goods, the demand is high and they will pay more money for the items. If people do not want the goods, the demand is low.

Mr. Taylor's class is raising money for a class fundraiser by selling doughnuts. Each day, they have 25 doughnuts to sell.

1. On the first day the class sold all the doughnuts in the first 5 minutes. What was higher? The supply or demand?

2. On the second day of school, the class got 20 more doughnuts to sell. Did they increase supply or demand?

3. On Wednesdays, the cafeteria gives out free muffins. Do you think this caused the demand for doughnuts to go up or down?

4. On Thursday, the class sold doughnuts with cookie crumb topping. Do you think this caused the demand for doughnuts to go up or down?

5. Do you think the class wants a higher demand or a higher supply of doughnuts?

6. If the class lowers the supply of doughnuts to 10 doughnuts a day, what do you think they could do with the price?

